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FISCAL IMPACT STATEMENT

LS 7352

BILL NUMBER: HB 1334

NOTE PREPARED: Mar 28, 2013

BILL AMENDED: Feb 21, 2013

SUBJECT: Various Education Matters.

FIRST AUTHOR: Rep. Thompson

FIRST SPONSOR: Sen. Kruse

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions:

Liability Insurance: This bill permits the Department of Administration to contract for the availability of personal liability insurance for public and nonpublic school teachers in Indiana.

Income Tax Deduction: The bill provides that a teacher is entitled to an income tax deduction for certain qualified education expenditures. It provides that the amount of the deduction is the lesser of: (1) the amount of the qualified education expenditure; or (2) \$1,000.

Union Dues: The bill prohibits a school employer from deducting from a teacher's salary any amount that is a contribution or payment for political activities. It repeals a provision requiring a school employer to deduct union dues from a teacher's salary and allows a deduction based on a school employee's authorization that is valid for one-year periods.

It provides that a school employee who believes a violation of the dues deduction provisions has occurred may file a complaint with the Attorney General.

It requires the State Board of Accounts to include a report concerning a school employer's compliance with the dues deduction provisions as part of its examinations and requires referral to the Attorney General for instances of noncompliance.

License Renewal: The bill provides that if a certificated employee is required to renew the certificated

employee's license in the same year the certificated employee receives a designation as highly effective, the certificated employee is not subject to the continuing education requirements in order to renew the certificated employee's teaching license.

It provides that if a certificated employee is required to renew the certificated employee's license in the same year the certificated employee receives a designation as effective, the certificated employee is only required to complete either: (1) three (3) hours of college or university course work; or (2) fifty percent (50%) of the professional growth experience growth points; required to renew the certificated employee's teaching license.

Waiver for High Performing Schools: It provides that a governing body may request the State Board to waive any rule adopted by the state board for a school contained in the school corporation if the school has been placed in the two highest categories or designations of school performance.

Effective Date: January 1, 2013 (retroactive); July 1, 2013.

Explanation of State Expenditures: *Indiana Department of Administration (IDOA):* This bill allows the IDOA to contract with at least one personal liability insurer to allow any teacher to purchase coverage under a personal liability insurance policy. The IDOA could issue a request for proposals (RFP), which is within their current responsibilities. However, the IDOA does not have the staff available to manage such a contract.

Contract for Personal Liability Insurance: Any impact to the state for contracting for personal liability insurance will depend upon whether the IDOA issues a RFP and the details of the contract. The bill specifies that teachers that purchase coverage under a plan contracted by IDOA will pay the full premium for coverage.

(Revised) *Union Dues:* The fiscal impact on the Attorney General's office would depend on the number of complaints the office receives and how many of those complaints the office decides to investigate.

The impact on the State Board of Accounts is expected to be minimal. As part of its examination of school corporations' financial accounts, the agency would have to submit a report concerning a corporation's compliance with this provision and inform the Attorney General of any violations. The Attorney General, in turn, may investigate the violation. [See also *Explanation of Local Expenditures-Additional Information-Union Dues.*]

Waiver for High Performing Schools: This proposal could cause the workload of the State Board of Education to increase. The extent of the increase would depend upon the number of waiver requests it has to evaluate.

Department of State Revenue (DOR): DOR would have administrative expenses to revise tax forms, instructions and computer programming to accommodate this new deduction. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented within existing level of resources.

Explanation of State Revenues: The bill provides an income tax deduction to a teacher that makes an unreimbursed educational expenditure during any taxable year starting Tax Year 2013. It requires that the taxpayer's primary responsibility must be instruction of students. It provides that a taxpayer could be; (1) a teacher or instructor, (2) a principal, (3) a librarian, or (4) a counselor.

The amount of the deduction is the lesser of: (1) The amount of the qualified educational expenditure made by the taxpayer; or (2) \$1,000. It defines "qualified education expenditure" as books, computer equipment or software, textbooks, workbooks, curricula, supplies, and other written materials used primarily for academic instruction or for academic tutoring, or both, that the taxpayer uses to provide instruction in a qualified school.

It defines "qualified school" as an elementary or secondary school that is: (A) a public school, including a charter school; or (B) an accredited nonpublic school.

The bill could reduce state Adjusted Gross Income (AGI) Tax liabilities of taxpayers that qualify for the tax deduction. For each taxpayer that is able to deduct \$1,000, the state revenue loss would be \$34 (\$1,000 multiplied by the 3.4% Individual AGI Tax rate).

Currently there is a similar tax deduction available to an eligible educator for federal tax purposes. A taxpayer can deduct up to \$250 (\$500 if married filing joint and both spouses are educators, but not more than \$250 each) of any unreimbursed expenses incurred for books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials used in the classroom. According to IRS Statistics of Income data (2009 & 2010), the number of taxpayers claiming this deduction were 68,173 in 2009 and 65,473 in 2010. Based on the claims for federal deductions it is estimated that 66,820 Indiana taxpayers will claim the similar tax deduction provided in this bill. The revenue loss is estimated to be \$2.2 M ($66,820 * \$1,000 * 3.4\%$).

The deduction is effective for tax years beginning January 1, 2013, and will affect revenue collections beginning in FY 2014. Individual income tax revenue is deposited in the state General Fund.

Explanation of Local Expenditures: Summary:

(Revised) (1) *Union Dues*: School corporations would face two fiscal impacts. Administrative personnel would have to process employee authorizations annually, but that is expected to be within existing resources. On the other hand, corporations may have to expend resources ensuring that employee deductions are not being used for political purposes. In cases where an employee files a complaint with the Attorney General, corporations may incur litigation costs in defending themselves against the accusation. Depending on the number of complaints that are filed with the Attorney General's office, these costs could prove to be substantial.

(2) *License Renewal*: The fiscal impact on school corporations should be minimal.

(3) *Waiver for High Performing Schools*: The fiscal impact would depend on local action. The school could save on some administrative costs if the waiver resulted in reduced expenditures for some programs.

Additional Information:

(Revised) *Union Dues*: Under current law, the governing body of a school corporation is to deduct from the pay of the employee any dues designated for an school employee organization (i.e., a school employee organization has school employees as members and, as one of its primary purposes, represents the school employees in dealing with the governing body of the school corporation), and remit the dues to the school employee organization. The school employee must give written authorization to the school corporation to do so.

This provision repeals current law. It stipulates that the school employee's authorization to have dues deducted would be valid for one year and has to be renewed annually. Additionally, the governing body may not deduct any payment if it is to be used for political activities. If a school employee believes that a payment has been or is being used for political activity, the school employee may file a complaint with the Attorney General. The Attorney General, in turn, may investigate the violation and order that the practice be stopped.

The State Board of Accounts, in its review of the corporation's accounts and financial affairs, would also file a report on the school corporation's compliance with this provision. Violations would be reported to the Attorney General who may investigate and enforce compliance.

License Renewal: Usually, an applicant for license renewal has to complete either a minimum of 90 hours of professional education or six semester hours of college or university credit.

Waiver for High Performing Schools: Under the bill, the governing of a school corporation that has placed in two highest categories of school academic performance for two consecutive years may petition the State Board to waive any rule adopted by State Board that would impact the school. The State Board shall either approve or deny, in whole or in part, the request for a waiver. If the waiver is approved, the State Board shall determine how long the waiver would remain in effect; however, the waiver would remain in effect only as long as the school continues to be placed in the two highest categories of academic performance.

Based on 2012 academic performance data from DOE, approximately 923 schools (public including charter schools, and non-public schools) would qualify for a waiver under this bill. Under current law, the subject areas the waiver could cover include accreditation standards, the issuance of substitute teachers' licenses and the employment of substitute teachers, and ISTEP standards. In which of these areas the State Board would approve waivers is unknown at this time.

Explanation of Local Revenues: Since the tax deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of 1.45%, the estimated revenue loss due to the tax deduction could be \$1.0 M in FY 2014 and years thereafter.

State Agencies Affected: Indiana Department of Administration; Department of State Revenue; State Board of Education; State Board of Accounts; Office of the Attorney General.

Local Agencies Affected: Local schools; School corporations

Information Sources: Connie Smith, Indiana Department of Administration, 317-233-1494; Department of Education website: www.compass.doe.in.gov; www.doe.in.gov/improvement/accountability; **S t a t i s t i c s o f I n c o m e , I n t e r n a l R e v e n u e S e r v i c e :** <http://www.irs.gov/uac/SOI-Tax-Stats---Historic-Table-2>.

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